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SECURE Act's Definitive Roadmap to Distribution Options for Inherited IRAs

Denise Appleby, MJ, CISP, CRC®, CRPS, CRSP, APA, Founder and Owner of Appleby Retirement Consulting, Inc.

Editor's note: This article is an adaptation of the live webinar delivered by Denise Appleby in 2022. Her comments have been edited for clarity and length.

You can read the summary article here as part of the July 2022 Retirement InSight and Trends Newsletter, worth 1.0 CE when read in its entirety (after passing the online quiz.)

You may also choose to take the full length course SECURE Act's Definitive Roadmap to Distribution Options for Inherited IRAs for 1.0 hour continuing education (CE) credit.

By Denise Appleby, MJ, CISP, CRC®, CRPS, CRSP, APA, Founder and Owner of Appleby Retirement Consulting, Inc.

The SECURE Acts 1.0 and 2 (Setting Every Community Up for Retirement Enhancement) are why we are here today because it does get complicated. How can we help you help your clients when they say, "Listen, advisor, I have an inherited IRA; what are my distribution options?" How you respond to that correctly is to determine what class that beneficiary falls into. There are also unique planning opportunities for spouse beneficiaries.

There is also good news if one of your clients misses the deadline to take the RMD from their inherited account. Remember when the SECURE Act 1.0 was published, and we thought we knew what we were discussing? Then the Proposed RMD Regulations were published on February 24, 2022, to explain SECURE Act 1.0, and contradicted the industry interpretation of the 10-year rule for some beneficiaries. They said, "No, not so fast. You got to change some of what you are saying." Why am I telling you this? When you talk to your clients, remind them that the rules that govern retirement accounts change often. And that is one of the reasons why they need to come in and see you before they act with their retirement accounts.

SECURE Act 1.0: Key Changes that Affect Beneficiaries

SECURE Act 1.0 came into effect in 2020, as you remember, increased the starting RMD age to 72, and repealed the total life expectancy option for designated beneficiaries. And instead, they are now subject to a 10-year rule. Successor beneficiaries are also capped and are subject to the 10-year rule.

Remember, we used to say to IRA owners and plan participants, "Name your young grandchild as your beneficiary, and if they have a life expectancy of 60 years, then the account can be stretched over a 60-year period because it can continue with a successor beneficiary." Not anymore. That's why you hear that SECURE Act 1.0 killed the stretch. No more stretch for the entire life expectancy of the original beneficiary if either the original beneficiary or the successor beneficiary dies after 2019.

Before SECURE Act 1.0, a 35-year-old beneficiary had a life expectancy of 50 years. Now they are only ten years, right? That is quite an impact. Congress said, "Listen, this is not your retirement account. It is just gravy for you. So, you should not be accumulating tax-deferred amounts for years."

Now, I want to add a note of caution here. And there are many notes of caution that we need to add when it comes to IRAs. But one of the most important ones is not assuming that a particular rule applies to a beneficiary regarding distribution options if the participant or IRA owner died before their required beginning date. By the way, when I mention IRA owners, I also mean those with employer plans. But for ease, I am going to just say IRA owners. And if an exception applies to employer plans, I will also say that.

So, let us assume that the IRA owner died before 2020 and before their required beginning date. Many assume that the beneficiary is subject to the life expectancy option, but that is not necessarily true. That is the default provision under the RMD regulations. Still, the terms of an IRA or plan document could say that even though the life expectancy rule is an option, we will default to the five-year rule because we want to avoid them stretching the distribution over their life expectancy. So, you want to check for that for both pre-SECURE Act death and post-SECURE Act death. Post-SECURE Act death applies to a different class of beneficiary, which I will discuss in a second.

SECURE Act 1.0 also created eligible designated beneficiaries. Who is an eligible designated beneficiary? You are an eligible designated beneficiary if you are the surviving spouse of the IRA owner, a child of the IRA owner who has not reached the age of 21, disabled, chronically ill, or not more than ten years younger than the IRA owner.

Now, the status of the eligible designated beneficiary is determined at the time of the IRA owner's death. Why is that an important distinction to make? Let us say, for instance, someone died today, and their beneficiary is not an eligible designated beneficiary. But tomorrow, that designated beneficiary was involved in an accident and became disabled. Are they eligible designated beneficiaries? No. Why? Because they were not an eligible designated beneficiary at the time of the IRA owner's death.

Proposed RMD Regulations, February 24, 2022

Now, let us move on to the Proposed RMD Regulations published on February 24, 2022. If you called me on February 23, 2022, and asked, "Denise, what are the distribution options available to a designated beneficiary who inherited an IRA after 2019?" I would stand on the mountaintop with a microphone and say, "I will put my salary on the line that the options are the 10-year rule where distributions are optional for years one through nine until year 10, when the entire account has to be distributed. However, when the proposed regulations were published, the IRS said, "Well, you are only half right, Denise. That is true if the account owner dies before the required beginning date. But if they died on or after the required beginning date, the designated beneficiary is subject to a 10-year maximum where they must take annual RMDs for every year of those ten years."

The proposed regulations also relaxed the excise tax that applies to RMDs for the year of death, which is not taken by the end of the year. That excise tax is automatically waived as long as the RMD is taken by the IRA owners' tax filing due date, plus an extension for the year of death.

What does it mean to be ten years younger or not more than ten years younger? Because we know that traditionally when the IRS talks about ten years, they look at it on a calendar year basis, but when the proposed regulations were published, they said, "No, we are counting these things in days." For instance, if Susie's date of birth is October 1st, 1953, then Susie's beneficiary is at most ten years younger if the beneficiary was born on or before October 1st, 1963. You might have to review any conversations with an eligible designated beneficiary classified as such because they were not more than ten years younger. If it is close, we need to go back and see whether they fit into that category, or did we exclude anyone that should have fit into that class of beneficiary?

The "at least as rapidly rule" or ALAR applies to every beneficiary. Under ALAR, if the IRA owner was required to take RMDs at the time of death, then the beneficiary has to continue taking distributions at a rate at least as rapidly as the rate at which the IRA owner was taking distributions.

This created quite a fuss in the industry. During the comment period on the proposed regulations, practitioners and taxpayers all wrote to the IRS and said, "Listen, so what you are telling me is that if I am subject to the 10-year rule and I am also required to take annual RMDs, I did not because of what you told me? Then what are we supposed to do now? Because by my reading of the regulations on the tax code, I now owe you 50% of the amount that I did not take because the language in SECURE Act 1.0 clearly said that I did not have to take it. But now you are telling me that my interpretation is wrong because SECURE Act 1.0 did not say that we should have taken into consideration."

The IRS said, "You know what? You are right. So, here is what we are going to do. If you are subject to the 10-year rule and you are also required to take annual RMDs, we are going to waive the 50% excise tax for 2021 and 2022 because those are the years that we feel have been impacted the most now that we are telling you know what steps you need to take going forward.

So, for clients subject to the 10-year rule and inherited accounts in 2020 or 2021 who did not take RMDs for 2021 and 2022, there is an automatic waiver of the 50% excise tax. This also applies to successor beneficiaries, whose original beneficiaries took distributions over their life expectancy and died after 2019. And the successor beneficiary is subject to a 10-year maximum period during which they have to take annual RMDs.

What is SECURE Act 2.0?

One of the biggest things that came out of SECURE Act 2.0 was the new schedule for the RMD age. When a client asked, "When am I supposed to start taking RMDs?" we would say the year you reach age 72, or if you reach age 70½ before 2020, we would say the year you reach age 70½. But now we have to take out our calculator and say, "Well, what is your date of birth?" Because, based on your data, your birth date will determine when you are supposed to start taking RMDs.

So, let us quickly take a look at that. You ask your client, "Were you born June 30th, 1949, and earlier? In that case, you should have started for the year you reach age 70½ and continue for every year after that. If you were born July 1st, 1949, to December 31st, 1950, it is age 72. If you were born July 1st, 1951, to December 31st, 1959, it is age 73. And if you were born July 1st, 1959, and after, it is age 75. And right now, I know some of you are saying, "Denise, I think you made a mistake because you have 1959 in both the age 73 and the age 75 category."

And this time, I will tell you, no, it is not my mistake because that is precisely how it was written in SECURE Act 2.0. Now, it is expected that mistakes will be made when we have these new tax laws. It is a lot. And so there are usually opportunities for them to issue technical corrections. The good news is that we do not have to worry about this for some time because it only affects individuals born in 1959. But we expect the IRS to issue technical corrections to state the intent clearly.

Individuals who reach age 72 in 2023 do not have an RMD for 2023. Why? Congress had to decide when to make this go live; when do we make this effective? SECURE Act 1.0 was passed on December 20th, 2020, and many provisions became effective a week later. SECURE Act 2.0 was passed on December 29th and became effective in some provisions immediately.

The change in RMD rules was one of those, and here is how it affected some of your clients. IRA custodians must send out RMD notifications for clients who are supposed to take an RMD for the year. This only applies to inherited IRAs if the custodian wants to do that. But the obligation rests with IRAs that the individual owns, said and simple, as long as the custodian held the account on December 31st of the previous year. So, some custodians needed more time to change their system. So come January, those notices went out to clients who reach age 72 in 2023. Now, they should not have gotten those because of the new rules. They do not have an RMD for 2023. Here is the problem. Some of them are like me. When I get a bill, I pay it right away because I do not want to wait, get it, pay it, get the RMD noticed, and take the RMD.

The problem is, now they are contacting their advisor and saying, "Listen, I took what I thought was an RMD, and now I am being told it is not. What should I do?" In that case, you can have the client roll it over. The rollover generally should be completed within 60 days of receipt. But this is one of those cases where they qualify for an automatic waiver under the self-certification option. This is explained in Revenue Procedure 2020 46, and most IRA custodians have a procedure for that.

So, you contact the IRA custodian and say, "Listen, my client took what they thought was an RMD because you told them to. Now they want to put it back. It is past the 60-day deadline. How do we proceed?" But there is another issue. What if the client took a distribution from an IRA and rolled it over within 60 days? They can do that only once in 12 months. So, if your client already did an IRA-to-IRA rollover, they cannot roll over this non-RMD to their traditional IRA because they will break that rule.

What do you do to help the client in that case? If they participate in an employer plan, they can roll it to the employer plan if the plan allows. If not, the only other solution is to roll it to a Roth IRA as a conversion. And right now, you are saying, "But Denise, that will be included in income." It will be included in taxable income but would have been included if they did not roll it over. In this case, the difference is that it will go into the Roth, where it will grow tax-deferred, and eventually, the earnings would be tax-free. So, those are the two solutions.

I hope the IRS comes back, looks at this, and says, "Let us just waive all the restrictions that apply to the rollover of this particular amount." They did that in 2020 under the Cares Act. But we must not be complaining loudly enough about this, or maybe it did not affect enough people, so they do not hear the noise and haven't done anything. So, for now, those are the only two options. And I am keeping my fingers crossed that they will provide some concession for these amounts.

Under SECURE Act 2.0, spouse beneficiaries may now treat an employer plan as their own. If that sounds familiar, they can already do that with IRAs. But be aware of that terminology because with an IRA, when you treat it as your own, you can make your regular IRA contributions or rollover contributions to that account. This is only for RMD purposes, where instead of the single life expectancy table, the uniform lifetime table can be used to calculate the spouse beneficiary's RMD on their own employer-sponsored retirement plan.

This will be effective in 2024. How is this done? We have yet to find out. How do you make such an election? We are still waiting on the IRS for guidance. Understandably they need some time, but I suspect they will just piggyback off of rules already there. They still have a year or a half to figure that out because it is June. Hopefully, that is sufficient time.

Now the spouse beneficiary has to make an election to choose this option. So, when your client converses with you, part of what you will say to them is, "Well, did you get some paperwork about the election options and which option did you choose?" And if the client says no, offer to get on the phone with them and we figure that out. So, that helps to protect your spouse beneficiary client by having them take a lower RMD than the RMD they would have had to take under the single life expectancy table. They can always take more. But with the single life expectancy table, they are locked into a higher amount.

RMD aggregations with annuities are another huge change. Here was the problem with that. If you have multiple IRAs or 403(b)'s or multiple accounts under a 401(k) plan, you can calculate the RMD amount separately and take the total from one or more of those accounts, right? Be careful because you can only aggregate between traditional SEPS and SIMPLEs or between 403(b)'s or multiple accounts under the same 401(k) plan. You can't cross borders. For instance, you cannot cross borders and aggregate 403(b)'s and IRAs. Right?

Even though I said, using IRAs as an example, you could calculate the RMD separately for two IRAs, total the amount, and take it from one or more of those IRAs; however, you couldn't do that if one were annuitized. And the problem for the IRA owners is that the annuity amount is usually so huge that it could cover the RMD for the regular IRA anyway. And by regular, I mean non-annuitized.

But now, under SECURE Act 2.0, they can. There is still an outstanding issue because annuitized IRAs do not have an account balance. How are we going to figure out what the RMD is? For now, the SECURE Act 2.0 says, "Use your best judgment", and we will be fine. So, use your best judgment if you have a client who wants to aggregate an annuitized annuity and a non-annuitized IRA.

SECURE Act 2.0 also reduces excise taxes on RMD shortfall. I was talking about this earlier because the 50% excise tax was so steep, right? Someone should have taken an RMD for $50,000. They owe the IRS an excise tax of $25,000. Oh, man. So, now the IRS says, listen, or SECURE Act 2.0 says it is reduced to 25%, effective 2023. And guess what? It is reduced to 10% if corrected during a correction window. Great news.

Now, let me tell you what I am hearing people say. Oh, because it is reduced to 10%, it's unlikely the IRS will waive the excise tax if the deadline is missed. I don't entirely agree with that because the language in SECURE Act 2.0 did not override the current language in the tax code that says you can request a waiver of the excise tax if the deadline was missed due to reasonable cause. So, unless the IRS comes out and says clearly that they are not accepting any request to waive the excise tax, regardless of why the deadline was missed, my recommendation is to soldier on for your client and file those forms. The IRS will likely honor the request to waive the penalty. The only time the IRS has denied a waiver request is when the form wasn't filled out correctly. And everything was copacetic once the CPA brought it to me, and we helped them fix it.

SECURE Act 2.0 also now allows for RMDs not to be required for designated Roth accounts. It made sense that Roth IRA owners are not subject to RMDs. So, why were Roth 401(k), Roth 403(b)s, and Roth 457(b)s – collectively known as designated Roth accounts – why were they subject to RMDs? It made no sense whatsoever. And they probably heard us complaining about that. They agreed, and now, after December 31st, 2023, designated Roth accounts are no longer subject to RMDs.

Be careful, though, because if your client is supposed to take an RMD in 2023, their first RMD, they can take it as late as April 1st of the following year. That will be in 2024. However, that is not a 2024 RMD. That is a 2023 RMD. So, it does not qualify for this waiver.

Distribution Options for Classes of Beneficiaries

I am going to address distribution options now in more detail. And I want to remind you that for what we talk about here, everything will be separated into when the account owner dies before the required beginning date versus when the account owner dies on or after the required beginning date. For Roth IRAs, because there is no RMD for the Roth IRA owner, whether the Roth IRA owner dies at age 10 or 800, the rules are the same, right? Traditional IRAs are different.

Now, one of the things you have to do when the client tells you they have an inherited account is to find out what class of beneficiary they are. We covered all of those earlier except successor beneficiaries. Who is a successor beneficiary? That is the beneficiary that is not the original beneficiary. You need to find out if your client is a successor beneficiary. One of the primary mistakes I see is an advisor or financial institution assuming that a beneficiary is a primary beneficiary when they are just a successor beneficiary. And when you make that kind of mistake, the RMD you tell them they must take is incorrect.

The first thing you must determine when explaining the distribution option is whether the account owner died before the required beginning date. What's the required beginning date? Earlier, we talked about the first RMD year. The required beginning date is April 1st of the year that follows that year for the IRA owner. Now, if they participate in an employer plan, the plan can provide that their first RMD year can be deferred past that year until retirement if they are eligible. If you have a client with a solo 401(k) plan, they are not eligible. Why? Because they would be a 5% owner.

Anyone who owns less than 5% of the business is eligible for that deferral. And even if they are not, do not assume that they are because the plan does not have to offer that option. So, you want to tell the client, let us get on the phone, talk to your plan administrator, and find out if you can defer taking your RMDs past your applicable RMD age.

So, what options apply to the beneficiary? You got to ask them a bunch of questions. And my recommendation to you is to create an intake sheet. Feel free to use some of the information that we cover here today. You want the date of birth and date of death of the IRA owner, the date of birth of the beneficiary, and the date of death of the beneficiary if the beneficiary died. Ask that question because that will help you determine if your client is a successor beneficiary. Is the beneficiary a spouse or any other class of eligible designated beneficiary? And were there multiple beneficiaries on the account? That could change the determination of whether the beneficiary is a designated or non-designated beneficiary.

RMD for the year of death. If the account owner died on or after the required beginning date, you want to ask, "Well, did the owner take the RMD for the year of death?" Why is that? Because if they did not, it has to be taken by the beneficiary. And if the beneficiary misses the deadline, they are the ones who owe the IRS the excise tax or excess accumulation penalty. Now, that RMD is calculated as if the owner lived through to the end of the year. But here is good news. SECURE Act 2.0 acknowledges that when someone inherits an IRA, they think about things other than the deceit and take their RMD, right? And some IRA owners leave it to the end of the year to take it for different reasons. So, by the time they scramble around instead of the beneficiary accounts, et cetera, et cetera, it is well past the deadline. It is unfair to these individuals to ask for a waiver due to reasonable cause. And they agree. And in this case, they said, "Listen, the deadline is technically the end of the year, but as long as the beneficiary takes it by the beneficiary's tax filing due date plus extension, there is an automatic waiver."

How do you determine the distribution options that are available to the beneficiary? Here is the first question that you ask. Are you the primary beneficiary? And if they say yes, you want to know, did the owner die before 2020? Did the owner die before the required beginning date? Is the beneficiary a non-designated beneficiary? Designated beneficiary? Eligible designated beneficiary? When someone calls me and says, "Denise, I have a client who inherited an IRA. He's 59. What are his distribution options?" I am like, "What?" That is not even half of the information. There are ten more questions that I need to ask you because if I do not have the answers to them, we cannot even begin to give you the answer.

Now this is a table here that I created. It is only a high-level summary. More details are needed to drill down. We may have a new webinar focusing on this table, which could fill an hour.

Beneficiary Options: Pre-Secure Act & SECURE Act

	Pre-SECURE: IRA owner dies 12/31/2019 or earlier		SECURE: IRA owner dies after 12/31/2019	
	Death before the RBD	Death on/after the RBD	Death before the RBD	Death on/after the RBD
Designated Beneficiary	5-year rule; Beneficiary's life expectancy	Longer of Beneficiary's **or** decedent's life expectancy	10-year rule	Beneficiary's life expectancy **&** 10 Year rule
Eligible Designated Beneficiary	N/A	N/A	Beneficiary's life expectancy **or** 10 Year rule	Longer of Beneficiary's **or** decedent's life expectancy
Nondesignated beneficiary	5-year rule	Decedent's life expectancy	5-year rule	Decedent's life expectancy

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But here is what I did for you. I broke it down into What if the account owner died before the required beginning date and died before 2020? What if they died after 2019? And if they died before the required beginning date?

So, here you have a high-level summary of the options. We know there are no pre-2020 rules for eligible designated beneficiaries because a new class of beneficiaries became effective in 2020. So, please use this table.

And here is something that you want to make a special note of. Compare the designated beneficiary option, right? It is the five-year rule or the beneficiary's life expectancy if the account owner died before 2019 and before the required beginning date. As I said before, do not assume that one applies. Double-check to make sure, especially if you did not have the account and it is just coming over to you. You want to find out was the beneficiary subject to the five-year rule or the life expectancy rule? If the death of the account owner occurred on or after the required beginning date, it is the longer of the decedent's or beneficiary's life expectancy.

And you will see here on the SECURE Act 1.0 that it is just a 10-year rule. If they died before the required beginning date or over the beneficiary's life expectancy, they can't go beyond ten years if they died on or after the required beginning date.

Now, for eligible designated beneficiaries, if the account owner died before the required beginning date, there are two options: the beneficiary's life expectancy or the 10-year rule. And if the account owner died on or after the required beginning date, it is the longer of the beneficiary's life expectancy or the decedent's remaining life expectancy. The options for non-designated beneficiaries, like estates and charities, remained unchanged.

Now, pay attention here. When I said for eligible designated beneficiaries, there are two options, right? The life expectancy or the 10-year rule. That is one of the traps that I talked about. Say Jane inherited her brother's 401(k) account. She is 60; he is 65. That is not more than ten years younger. So, she is an eligible designated beneficiary. And now you are saying, "Oh, Jane, that is $500,000. You can stretch it over your life expectancy to help mitigate the income tax." And then the plan administrator says, "No, we are not offering her the life expectancy. She is subject to the 10-year rule."

What do you do in that case? You have Jane process a direct rollover to a beneficiary IRA where she can take distributions over her life expectancy. And that direct rollover must be completed by December 31st of the year following the year the participant died. So, that is one of the traps you want to look for and make sure your beneficiaries' clients don't fall into.

What Options Are Unique to Spouse Beneficiaries?

Spouse beneficiaries are a very special breed. They have options that are not available to other beneficiaries.

One of the traps you want to look out for is the 10% additional tax or early distribution penalty. Why is that? Because a spouse beneficiary, in addition to keeping the inherited assets in their account, can keep it in a beneficiary account. They can roll it over to an employer plan. And one of the mistakes I see often is, "Oh, I can put it in my account. Let us move it to my account." Sometimes that is good, sometimes not so good. Why is that? Because if they put it into the spouse beneficiary's account and the spouse beneficiary is under age 59½, then any distribution they take will be subject to the 10% early distribution penalty.

You avoid that by keeping it in a beneficiary IRA because those distributions are death distributions and are automatically exempt from the 10% early distribution penalty. So, ask your client, "Oh, you are a spouse beneficiary. Are you under the age of 59½? Then you better keep it in a beneficiary account until you are safe. Then you move it to your account."

One of the questions for the spouse beneficiary is, "Do you want to move it to your account now?" And one determinant factor is was the decedent younger than the spouse beneficiary? And if so, did the decedent die before their required beginning date? Because in that case, then you can keep it in the beneficiary account until the decedent has reached their RMD age. Then you switch it to the spouse beneficiary's account. I know that is a lot, but here is the objective. If they keep it in the beneficiary account, they can start taking RMDs once the decedent reaches their RMD age. But switching it to the spouse beneficiary account starts when the spouse beneficiary reaches their RMD age. And if the spouse is older, the surviving spouse is older, that date comes quicker. So, you want to push that off until as long as possible.

Then why do you want to switch it to the spouse's account when the decedent would have reached their RMD age? Because if you keep it in the beneficiary account, distributions would be taken over the single life expectancy option. If you move it to the spouse beneficiary's account, the uniform lifetime table will be used, producing a lower RMD amount.

There is now no 10% penalty on beneficiary IRA distributions. The single life expectancy option can be used, and they can move it to their own IRA. And RMDs, when they move it to their account, it is just like their own IRAs.

Before the proposed RMD regulations, when could you move it to your own IRA? We used to say, "Oh, do not worry about that. There is no deadline on that." Now, the proposed RMD regulation says there is a new deadline. The deadline is later in the calendar year when a surviving spouse reaches their applicable RMD age and the calendar year following the year of the IRA owner's death. So, now we have a new deadline. But fear not, because if your spouse beneficiary client misses the deadline, they can move it using the rollover method to their own IRA.

So, now we have to be careful how we move these accounts. Because sometimes it has to be transfers, sometimes it has to be rollovers, and we want to avoid running afoul of these rules, right? So, another item to add to your checklist.

What is the anti-bait and switch provision? Well, here is what some people have been doing. Some people have been saying, "Listen, you know what? If the account owner died before the required beginning date, I will choose a 10-year rule." Remember, I said the spouse beneficiary is an eligible designated beneficiary, or I said eligible designated beneficiaries could choose between a 10-year rule and the life expectancy rule, right? And the spouse beneficiary is an eligible designated beneficiary. So, some spouse beneficiaries and their planners have doing are, "Here is what you are going to do. You are going to choose a 10-year rule. And then later on, when you are supposed to start taking RMDs, you switch to your account and avoid taking life expectancy distributions."

So, you are gaming the system. And what many people do is when they come across these strategies, they talk about it in the big media, and Congress looks at the big media and says, "Okay, that is what you are talking about. Well, it is not going to happen under my watch." That is why when you know these unique strategies, you keep them to yourself and do not talk about them in big media, right?

So, because of that, they have this new provision that says if the account owner died before the required beginning date and you choose a 10-year rule and later choose to move it to your account. As a result, you avoid taking RMDs that you would have had to take had you chosen the life expectancy method. Guess what? That RMD amounts are not eligible to be rolled over. So, now you have some complex calculations that you have to do to make sure it is not included in the rollover to the spouse's account.

The Determinant Question and Answer

The determinant first question is, are you the primary beneficiary? The second question still is, are you the primary beneficiary?

What if they say, "No, I am not the primary beneficiary?" Then clarify because sometimes a term like "primary beneficiary" doesn't mean that to them. Ask, "The person who had the IRA originally – did you inherit it from them, or did they die and someone inherited it, and then you inherited it from that person?" This is the difference between a primary and a successor beneficiary. You want to use the correct terminology but take it further and explain what it means. Some consumers say IRAs when they have a 401(k) because they use the term IRA to mean all their retirement accounts, or they say 401(k) to mean everything. So, in those cases, we must say, "Well, give me a copy of your statement," because trust but verify, right?

However, if the client says they are not the primary beneficiary, we know they are a successor beneficiary. Now the question becomes, what distribution options are available to the successor beneficiary? Did the owner die before 2020, and what distribution options apply to the primary beneficiary? Because whatever applies to the primary beneficiary drives what is available to the successor beneficiary. Did the IRA owner die before 2019, and was the primary beneficiary taking distributions over their life expectancy? What if the primary beneficiary died before 2020? The stretch IRA rules still apply.

So, even though they are saying the stretch is dead, it depends. If the IRA owner died before 2020 and the beneficiary died before 2020, and the beneficiary was taking distributions under the life expectancy method, then the old stretch rules continue to apply for each successor beneficiary, right? But suppose the IRA owner died before 2020, and the beneficiary was taking distributions under the life expectancy option and died after 2019. In that case, the successor beneficiary is subject to the successor beneficiary's 10-year rule, where they have to continue taking annual distributions over the original beneficiary's life expectancy. The account has to be fully distributed by the end of the 10-year period that follows the year of the primary beneficiary's death.

Now, we will also figure out whether the primary beneficiary was subject to the five-year rule if the account owner died before 2020 or the 10-year rule if the account owner died after 2019. Why is that? Because if you are talking to a successor beneficiary of an IRA owner who was subject to the five-year rule for an account that they inherited before 2020, you need to find out what remains of those five years because they cannot hold the account beyond those five years.

The five-year rule still applies. Remember, 2020 was not counted under the five-year rule, right? If 2020 is part of the five-year rule, they have six years because RMDs were waived for 2020 under the Cares Act. Always remember that one, right? Sometimes, even when talking to clients, I must remember when doing my mental checklist. I am like, "Oh yeah, 2020 doesn't count when we count the five years." If the primary beneficiary was subject to the 10-year rule and let us say they die five years into that, then the successor beneficiary only has five years left.

Now, some of you might be IRA custodians. For those of you who are offering to calculate RMDs for inherited accounts, you are doing a nice thing. People want to avoid calculating those amounts. They get anxious because of all the complexities. But here is what I see happening: many custodians who offer this service are not asking, "Are you the primary beneficiary?" They ask for the account owner's date of death or birth, and what is your date of birth? They use that information assuming that the client in front of them is the primary beneficiary. What do you think is going to happen then? The calculation is going to need to be corrected. So, when you create your checklist, always include that question.

If you have a relationship with the IRA custodian, be sure they include that information somewhere on their system. This means that IRA custodians now have to add to their system the room to collect that information where there is a checkmark that says this is not the primary beneficiary. Their system should spit out that calculation based on that fact.

What Should Advisors Do to Plan for Beneficiary Distribution Options?

So, what are some of the things that advisors can do? What are some key takeaways?

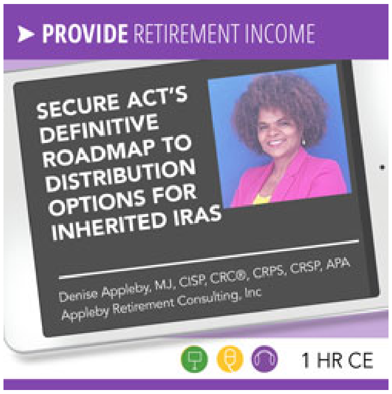
You will agree that we must create a checklist to develop a beneficiary profile. Otherwise, when the client says, "What are my distribution options?" You are just going say, "Come back and see me. Maybe I need to figure this out." But if your client is sitting in front of you and you have that checklist, you can get all the information you need, and then you'd be more than halfway to getting the client the information they need.

Look for opportunities for tax-efficient distribution strategies. For the spouse beneficiary, do we want to minimize distributions if there is an opportunity to do that? We want to ensure that the spouse beneficiary is not subject to the 10% excise tax by putting the assets in their account before they reach age 59½ if they might take distributions before age 59½.

We covered the 10-year rule a lot. One of the questions is, should they wait until the end of the ten years? Many believe the proposed regulations changed our understanding of the rules when the account owner died on or after the required beginning date. My response is, "Well, let us discuss that your client inherited a million dollars. If this is a traditional IRA, do you want to wait until the end of the ten years to take all that? Because you are talking about a lump sum distribution of a million dollars plus earnings." It may be best to spread it out.

That is a conversation that should be had in partnership with the client's tax advisor, where they are going to look at the client's profile and say, "Listen, even though you have a minimum amount or no required amount for the year, it serves you best from a tax perspective to take X amount this year, X amount next year, and so on."

And if the client misses the RMD deadline, ask for a waiver if the deadline was missed due to reasonable error. The financial institution made a mistake; the client did not get their RMD notice, somebody was sick, and the client did not get to take the RMDs. There are many options. So, look for those opportunities and submit a request for a waiver of the excise tax, whether it is 50% before 2023, 25% now, or reduced to 10%.



SECURE Act's Definitive Roadmap to Distribution Options for Inherited IRAs – Denise Appleby

About [Denise Appleby, APA, CISP, CRPS, CRC®, CRSP], Founder and Owner of [Appleby Retirement Consulting, Inc.]

Denise has over 15 years of experience in the retirement plans field, and has co-authored several books and written over 400 articles on IRA rules and regulations.

Denise held several senior retirement plans related positions with Pershing LLC, which includes Vice President of Retirement Plans Products and Services, Retirement Plans Manager, Trainer, Training Manager, Compliance Consultant, Technical Help Desk Manager and Writer. Denise has extensive experience with training the staff and financial advisors of many broker-dealers on retirement plans related topics. Denise has also provided training to hundreds of financial advisors, as well as tax and legal professionals on the rules and regulations that govern IRAs, SEP IRAs, SIMPLE IRAs and qualified plans.

Denise's wealth of knowledge in retirement plans led to her making appearances on CNBC's Business News, Fox Business Network and numerous radio shows, as wells as being quoted in the Wall Street Journal, Investor's Business Daily, CBS Marketwatch's Retirement Weekly and other financial publications, where she gave insights on retirement planning. Her expertise and knack of explaining complex retirement plans rules and regulation, so that they are easily understood, created a demand for her to speak at various conferences and seminars around the country.

Posts .

Retirement Income Using Charitable Strategies

Tiffany T. House, CAP®, CEPA, FCEP, Gift Planning Institute, Tax & Estate Strategy

Editor's note: This article is an adaptation of the live webinar delivered by Tiffany House, in 2023. Her comments have been edited for clarity and length.

You can read the summary article here as part of the July 2023 Retirement InSight and Trends Newsletter, worth 1.0 CE when read in its entirety (after passing the online quiz.)

You may also choose to take the full length course Retirement Income Using Charitable Strategies for 1.0 hour continuing education (CE) credit.

By Tiffany T. House, CAP®, CEPA, FCEP, Gift Planning Institute and Tax & Estate Strategy

Advisors, it is so vital to have charitable conversations with your clients. There are many reasons why. First, it offers us the ability to connect on a deeper level. There is something called oxytocin, which is a hormone released in the brain that allows people to feel connection, love, and bonding. When people talk about themselves or share stories from their past, oxytocin is released in the brain. They feel more connected and trust the person to whom they are talking. When we talk about charities, charitable intent, and donors' goals with their charitable concerns, we can learn more about them and have them start to connect with us on a deeper level.

It also provides the ability to retain clients. You are more than just an advisor when you have that connection and trust with a client. Referrals come more easily when you talk about charity with your clients. They will talk to their friends at cocktail parties about how their advisors are helping them accomplish what they want to accomplish.

Charitable planning is also an opportunity to talk to the next generation. Many financial advisors do not converse with the next generation because many clients want to avoid discussing finances with their kids. They will talk about their philanthropy.

Charitable planning tools can also be utilized to diversify assets.

Ninety-seven percent of high-net-worth individuals say they give to charity. Seventy-one percent of high-net-worth individuals agree that discussing philanthropy with their advisor is important. Fifty-nine percent of high-net-worth individuals want their advisors to utilize a team approach when something outside their advisor's wheelhouse; that includes charitable, tax, legal, and other aspects. Your clients want you to talk about philanthropy even if they are not considered high net worth.

The New Provisions in SECURE Act 2.0 for Charitable Income Strategies

The SECURE 2.0 Act was passed on December 29, 2022. It is designed to enhance retirement security for Americans. It stands for Setting Every Community Up for Retirement Enhancement. It includes a Qualified Charitable Distribution (QCD) from an IRA.

SECURE 2.0 Act allows for an investment of up to $50,000 into a charitable income vehicle. That could be a Charitable Remainder Trust (CRT) or Charitable Gift Annuity (CGA). When you look at it, $50,000 is not much money. Lobbyists asked for a $250,000 limit for this type of gift. We got what we got. We are happy with $50,000. However, it is available to use only once in a lifetime.

Before we hop into the CRT and CGA, we will discuss what a qualified charitable distribution does. How does it work from your IRA?

CRT income vehicles must be done using a qualified charitable distribution. Assets need to be from an IRA. They can be rolled over from other retirement accounts. The donor must be 70.5 years old. I realize that is no longer the required distribution age, but the youngest age for making a qualified charitable distribution is 70.5 years old.

Before clients must take their RMD, they can do a qualified charitable distribution from their IRA, allowing up to a $100,000 distribution to charity per person per year. The SECURE 2.0 Act also made that amount indexed for inflation starting next year. A client can give to multiple charities. I am always talking to donors about IRA assets being one of the first assets they give. When we can reduce the required minimum distributions, we can also reduce other tax rates. We are reducing their adjusted gross income.

Distributions from qualified plans will be taxable to their heirs and the next generation. Why would you not gift from the pool of assets taxed as ordinary income to the donor, their spouse, and their children? It is the best asset to give because most other assets will get a step up in basis if they are under the estate tax exclusion amount. It can also help avoid double taxation. If you have large IRA accounts, you pass away with them, and are in the estate tax realm, it qualifies for double taxation.

The one thing to note is that the qualified distributions must go straight to charity. If the check is made out to the charity, the donor could deliver the check, but that is it. It is better to ACH the distribution and keep the donor out of the interaction.

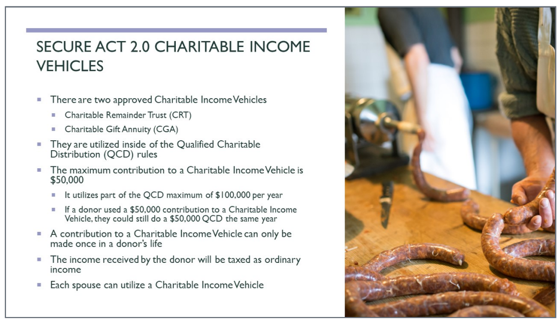
For example, say we have a 73-year-old with a $500,000 IRA. Their required minimum distribution is slightly over $20,000, but we will simplify it. They are in a 25% tax bracket. Currently, they are giving $10,000 to charity. Before the qualified charitable distribution, we take the $20,000 RMD. We pay our 25% tax on it. That leaves us with a $15,000 net distribution. We make our charitable contribution of $10,000. It leaves $5,000 in the client's pocket.

Let us compare this to utilizing a QCD. We have the same RMD requirement. Instead of taking a distribution, we will distribute part of that to charity. We increased the charitable amount from $10,000 to $13,000. When we do tax-advantaged strategies, we can give more. That leaves us with a $7,000 net distribution that, when taxed at the same 25% tax rate, leaves the client $5,250 versus $5,000 if they took the RMD and made their charitable contribution.

There are other results. The charity receives 30% more. The client has five percent more back in their pocket. We lowered their taxable income. We lowered their adjusted gross income, which helps them save on Medicare tax, Social Security tax, and possibly net investment income tax. When we lower the taxation, we can also save on other taxes.

Secure Act 2.0 Charitable Income Vehicles

As I mentioned, there are two approved vehicles: the charitable remainder trust (CRT) and a charitable gift annuity (CGA).



The maximum contribution to one of these charitable income vehicles is $50,000. I mentioned that the qualified charitable distribution (QCD) has a maximum of $100,000 per year per person. A $50,000 charitable income vehicle gift utilizes the QCD maximum. If someone were to contribute a $50,000 charitable gift annuity this year (a once-a-lifetime contribution), they could also do a $50,000 qualified charitable distribution straight to the charity.

The income received from a CGA is ordinary income. Those familiar with charitable remainder trusts or gift annuities know that the income distributions can be partially tax-advantaged. However, if it comes from an IRA, it passes through that same taxation. When future distributions come from these income vehicles, they are fully taxed as ordinary income, just like the required minimum distribution is taxed. Each spouse can utilize one of these vehicles.

Tools and Strategies for Retirement Income Planning

Charitable trusts are the Swiss army knife of planning. They can be applicable even if our clients are not charitable.

Three types of trusts are generally used for charitable income planning. Charitable trusts came into the tax code in 1969.

1. The charitable remainder trust is approved in the qualified charitable distribution. It is for capital gains tax assets. It saves on capital gain tax, net investment income, state tax, depreciation recapture, and estate taxes. When I use a charitable remainder trust, I am looking for capital gains tax assets to put inside the trust or to help with income tax issues.
2. A Grantor-Charitable Lead Trust is for income tax issues.
3. A Charitable Lead Trust is for estate tax issues.

Here we will focus on the Charitable Remainder Trust and discuss the Charitable Gift Annuity later.

Here is a quick explanation of how they work. We have an asset, say an apple tree, which produces income (apples). The donor can put the tree inside a charitable remainder trust for a term of years or until the end of life for multiple lives if the calculations work out correctly. They can:

- Get the income for life.
- Get an income tax deduction for the future gift of the tree to charity.
- Save on taxes.
- Still nurture the tree. They can be the trustee. They can fertilize it and choose how it is invested.

A charitable remainder trust is an irrevocable trust. The assets may be in an irrevocable trust, but the donor still has much say in managing the assets if that language is contained within the charitable remainder trust document.

With a charitable remainder trust, your ideal client is someone who has a capital gains tax asset or an appreciated asset. They could be selling a business. They might want to do a Roth conversion. The unique thing about a charitable remainder trust is that they do not necessarily have to be charitable. The other two income vehicles we will discuss, the charitable gift annuity and a pooled income fund, only work if someone is charitable.

For example, say you have a client who sells their business for $2 million without basis. When I do a CRT outside an IRA, I recommend not utilizing more than half of the asset. We want to keep our tax planning strategies as small as possible, giving our other assets more flexibility. The client can change their mind in the future and do other things. So, we will split a $2 million business in half and allocate $1 million to a charitable remainder trust.

We will transfer the title into a charitable remainder trust document prepared by an attorney. We can transfer that tax-free. We can sell it inside the trust completely tax-free. This trust has its tax identification number, and it is a charitable trust. All assets inside this trust will grow and compound tax-free as well. We saved a lot in taxes by transferring the asset and selling it inside the charitable remainder trust. You can see my assumptions and disclosures at the bottom. We are looking at $288,000 in tax savings at a 28.8% tax rate. We are looking at the 20% federal capital gains tax rate with $1 million. We are looking at a 3.8% net-investment income or Medicare tax and 5% on average for state taxes. After death, the funds from the remainder trust will go to charity. It could also go into a donor-advised fund.

Donor-advised funds are a wonderful way to teach philanthropy to children and grandchildren. It creates a unique family culture of values. A donor could have this trust for their and their spouse's lives. Their family can manage which charities get those funds over time. They could do that with only part of the assets. They could give it all to one or ten charities if it goes to a qualified 501(c)(3) organization. Their charitable intent can be met.

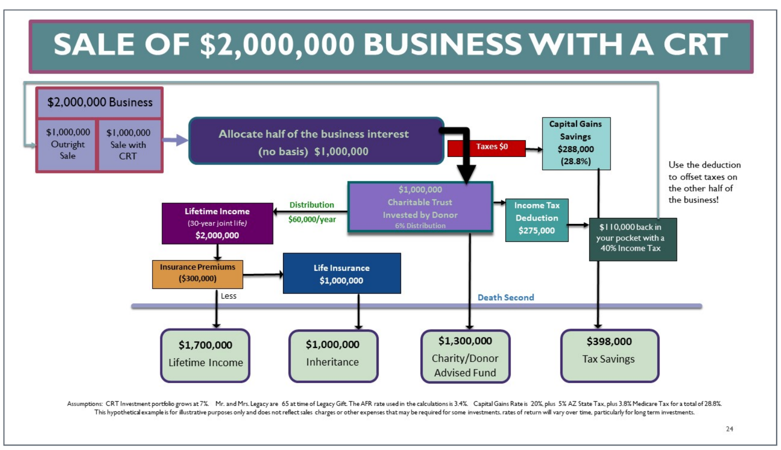
Case Study of a Charitable Remainder Trust vs. No Trust

For example, let us say we have a 65-year-old married couple, Mr. and Mrs. Legacy, selling their business for $2 million. What might be the results of using a CRT to generate retirement income and pass on assets to their children versus not?

Assumptions:

- CRT investment portfolio grows at 7%.
- The AFR rate (applicable federal rate (AFR) is the minimum interest rate that the Internal Revenue Service (IRS) allows for private loans) used in the calculations is 3.4%.
- Capital gains rate is 20%
- 5% AZ state tax
- 8% Medicare tax

For a total of 28.8% assumed taxes. (This hypothetical example is for illustrative purposes only and does not reflect sales charges or other expenses that may be required for some investments. Rates of return will vary over time, particularly for long-term investments.)



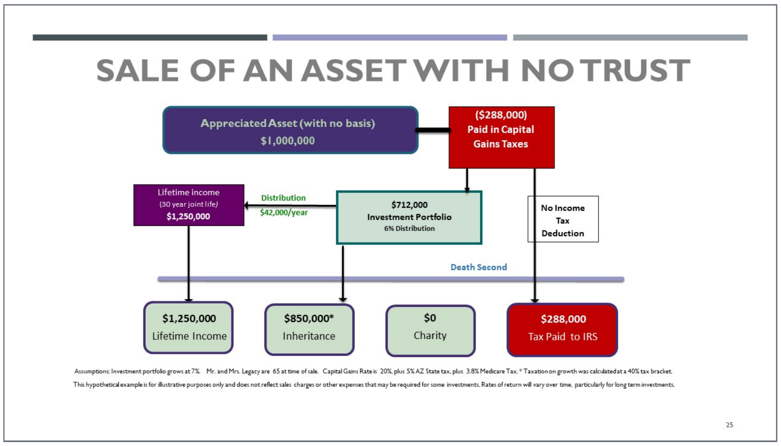
First, they will allocate only half of the business interest in which they have no basis to a charitable remainder trust. Because this is a future gift to charity, they get an income tax deduction today of $275,000.

Let us look at the income. The client will distribute six percent or $60,000 a year. Over their 30-year joint life expectancy, they will receive $2 million in retirement income.

What about the kids? We can add in a 10-year premium life insurance that costs $300,000 for $1 million of life insurance. That completely replaces the asset inside the CRT. Their lifetime income after paying life insurance premiums dropped to $1.7 million. The children will get a $1 million inheritance.

Now let us look at the income tax deduction on the right. Mr. and Mrs. Legacy are in a 40% tax bracket this year. The gift of $1 million to a charitable trust gives them an income tax deduction today of $275,000. At a 40% tax rate, this provides $110,000 in tax savings back in their pocket. When added to the $288,000 capital gains, state, and Medicare tax savings because $1 million of the business asset is sold from within the charitable remainder trust, that is nearly $400,000 of tax savings of money working for them and not the IRS. We can then utilize the $275,000 deduction to help offset the taxes from the $1 million of the business share sold outright and not put in the charitable remainder trust. It can work the same to offset a Roth IRA conversion.

Now let's look at what might happen to the remaining $1 million asset with no basis.



Mr. and Mrs. Legacy pay their capital gains and state and Medicare taxes and put it in an investment portfolio, leaving only $712,000 working for them. They can manage it in the same capacity as inside the CRT. If they take a six percent retirement income distribution, that only allows them $42,000 the first year. Over their 30-year joint life expectancy is only $1.25 million of retirement income. The kids get an $850,000 inheritance because that $712,000 asset has grown over time. Charity gets nothing.

Now let's compare both strategies in a chart.

COMPARISON

Sale with No Trust		Sale using Charitable Trust	
Lifetime Income	$1,250,000	Lifetime Income (after Life Insurance Premiums)	$1,700,000
Inheritance	$850,000	Inheritance (Life Insurance Proceeds)	$1,000,000
Charity	$0	Charity (Or Donor Advised Fund)	$1,300,000
Income Tax Savings	$0	Income Tax Savings ($275,000 deduction at 40% = $110,000) (at 7% Growth for 30 years = $800,000)	$800,000
Total Benefit	**$2,100,000**	**Trust Benefit**	**$4,800,000**

That is Nearly a **$2,700,000** Benefit to using a Charitable Trust!

The hypothetical investment results are for illustrative purposes only and should not be deemed a representation of past or future results. Actual investment results may be more or less than those shown. This does not represent any specific product [and/or service].

26

On the left, we have a sale with no trust. On the right, we are utilizing a charitable remainder trust. The Legacy's retirement income goes from $1.25 million with no trust to $1.7 million after life insurance premiums were paid inside the charitable remainder trust. The kid's inheritance increases from $850,000 with no trust to $1 million with the trust. Charity or donor-advised funds receive $1.3 million from the trust.

How about the income tax savings? Recall that the $275,000 income tax deduction for the $1 million contribution to the charitable remainder trust creates tax savings at a 40% rate, or $110,000, that stays in the trust. That is money they can keep invested and growing for them. If that grows tax-free inside the trust at seven percent for 30 years, that is more than $800,000 in the trust.

The benefit of utilizing a charitable remainder trust with a $1 million asset is $4.8 million. The benefit of the same 30-year life expectancy without using a trust is only $2.1 million. That is a $2.7 million difference, which is significant. In addition, trust assets are free from estate tax assessment and are protected from litigation.

The one area this does not work well is if the donor were to die young. They will not get as much lifetime income if they do not live their 30-year life expectancy. There are some things we can do to work around that. You can do a charitable trust for up to 20 years or a lifetime trust.

Features and Benefits of Charitable Remainder Trusts

I love a charitable remainder trust because it allows you to leave a living legacy now that you can see and share with your friends.

Assets grow with tax-free compounding. There is some asset protection from litigation. The donor can be the trustee. The income payments can be based on life expectancy, a term of years, or both. There is an opportunity to set it up as a unitrust that pays out a percentage of the trust at the year-end value.

You can also set it up as an annuity trust which pays a stated dollar amount each year that does not change. Donors must take at least five percent distribution each year. The attorneys must draft the CRT document, and that adds cost. It works best with capital gains assets over $750,000 unless the donor does it for their actual charitable intent.

Another consideration is that the income tax deduction depends on how much remainder interest will go to charity. That is determined by the AFR rate, which follows interest rates. That rate is utilized in the calculation plus the length of the trust, which could be a term of years or life expectancy. How much income the donor wants to take affects the calculated future gift to charity, which is the amount that determines the income tax deduction today.

At least a 10% remainder interest must go back to charity. What is the highest amount of income a donor can take? It depends on the donor's age. I had a donor in their early 80s who took out 35% a year in income. However, a 65-year-old cannot take out much more than eight or nine percent and keep the remainder interest intact. You must play with the numbers to get what the client wants.

There are administrative costs, and you do have to file a tax return. This is a tool that is best in a high-interest-rate environment. You can get a 30% adjusted gross income limit, meaning you can utilize a tax deduction of up to 30% of your adjusted gross income in one year. I plan to take the deduction the first year; however, you have up to five years to utilize your tax deduction if needed.

The Charitable Gift Annuity (CGA)

With a charitable gift annuity, we can get an income stream with no volatility dependent on the general claims-paying ability of the nonprofit organization for this income stream for life.

A charitable gift annuity is great for people nearing retirement. Most charities do not want to do this with anyone under age 65, as there is too much risk of needing to pay a longer lifetime income.

Let us walk through how it works. We have the donor with money at hand. They can make a gift of the asset to the charitable gift annuity. In return, they get a fixed income for life plus a potential tax deduction for the gift. They could save on capital gains taxes if this were an appreciated asset. The remainder will go to charity, like the charity remainder trust we talked about earlier. The income payments are fixed and do not grow with inflation. It does not matter what the charity does with the funds; they can invest them, but they are responsible for payments for life regardless of investment performance. The income is partially taxable. It can be on one life, two lives, or someone else receives the lifetime income. I have had donors who wanted to do a gift annuity with their parents receiving the lifetime income.

As mentioned, the charitable gift annuity can be set up with appreciated property. That can save on capital gains taxes. You can get a partial income tax deduction.

The AFR rate comes into play here too. There is a fixed rate for most charities. Some charities will give higher rates than the American Council of Gift Annuities suggests.

Happy people give. Giving helps people live longer. That is a risk for the charity because if the donor lives past life expectancy, they could run out of funds for the gift annuity. Some third-party nonprofits will assume this risk and pay the remainder to the charity for a fee. That is becoming more popular because charities want to avoid handling income risk and administrative duties.

Some financial or other advisors look at the charitable gift annuity rates and think they could do better for their clients with an investment annuity. I find a charitable gift annuity to be the most beneficial when the donor wants steady income and wants to leave something to the nonprofit organization in the future when they no longer need it.

Who likes the charitable gift annuity? Who does not like it? Charities typically do not like charitable gift annuities because it is a claims-paying liability. They must do the administrative work. Advisors realize the income is not adjusted for inflation. Other annuity opportunities could have higher payouts. Donors love these because some donors do not want to mess with the stock market's volatility. They want to know if they get their check every month or year.

There are third-party, nonprofit, charitable gift annuity sponsoring charities which include community foundations and other private or public nonprofits that will insure the risk. They are proponents of it. You will hear many community foundations talk about charitable gift annuities.

SECURE ACT 2.0 allows a one-time gift of $50,000 to be made to a charitable gift annuity. Let us say we have a donor who is a 75-year-old female with retirement assets inside an IRA. The AFR rate for this illustration is 4.2%. She will receive $3,300 a year for life, which is 6.6%. After she is no longer with us, the remainder goes to charity. There is no income tax deduction because it is coming from her IRA. Her $3,300 will be taxed as ordinary income because that is how it went into the vehicle. Over her life expectancy of 17 years, she should get $56,100 from this gift annuity. Whatever is left over goes to charity.

We mentioned AFR with a charitable trust. With a charitable gift annuity, when we want a significant upfront deduction if not utilizing an IRA, we want to choose the largest AFR rate allowable. This would be for someone who does itemize. We can use up to the last three months' average AFR. If we do this through an IRA, we want a low AFR in our calculations. That will lower the taxes on the income.

A charitable gift annuity is relatively easy to set up. It can benefit multiple charities. We can utilize a third party. It can be set up for life.

What are Pooled Income Funds?

Pooled-income funds are another type of charitable income vehicle. It is not part of the SECURE 2.0 Act. A pooled income fund is a trust created by a nonprofit organization. With a pooled income fund of over $1 million, many people or a family can pool their assets inside the fund. The funds grow through tax-free compounding, and donors receive income from the funds taxed as ordinary income.

Why have I yet to hear of pooled income funds? Why are we talking about them now? They were established in the tax code in 1969. All income comes out as ordinary income. Other tools can provide more tax efficiency and income. It uses a different calculation to determine the tax deduction. If the fund is brand new, the tax deduction in the first three years is even larger.

The income can come out for a family for multiple generations. The income only pays the gains in the account. We are hearing about these now even though other tools show more tax efficiency because some advisors use them for preferred partnerships, private placement life insurance, and other tools to make it more tax advantageous. That can get quite complex.

Key Takeaways

It might seem complex with CRT, CGA, QCD, and pooled income funds and the terminology. We need to work as a team as advisors.

If you have any questions, reach out to other advisors. Find a planned giving counsel near you. Talk to planned-giving professionals at your universities and hospitals. They are experienced in these tools. There are consultants like me, community foundations, or third-party nonprofits. If you ever need any of those, reach out to me. I will show you the best ones.

You can help your clients be a hero. You can guide and help them unleash their generosity.

- There are many ways to help clients generate income in retirement.
- Charitable strategies can provide income and fulfill client objectives.
- Charitable conversations can grow and enhance your client relationships!
- You are never alone; it takes a team to find the right strategies for the client to optimize their goals!
- It is not as complex as it seems!

I hope you took some things away from this presentation and discovered ways to diversify income through charitable tools and strategies.

Retirement Income Using Charitable Strategies – Tiffany House

About Tiffany T. House, CAP®, CEPA, FCEP, Gift Planning Institute and Tax & Estate Strategy

Tiffany House, CAP®, CEPA, FCEP, is a tax, estate, and charitable strategist. She works as a consultant with families and helps guide them through intricate and essential situations including transitioning a business, planning philanthropy, values-based estate planning, and tax concerns. She works as a liaison with the advisory team to enhance efficiency, provide a comprehensive overview of opportunities, and ensure that the client's best interests are always first.

Being an active member of the community is important to Tiffany. She is the Past President of *Planned Giving Round Table of Arizona* (PGRT), President of *Check for a Lump!* and a board member of *Junior Achievement of Arizona*. She has served on other boards and enjoys being an advisory board member for many organizations. She is a Member of the *Arizona State University (ASU) President's Club*, has participated in the *Entrepreneurs Organization (EO)* and is actively engaged in personal development with *Landmark*. She mentors with the *Arizona Community Foundation's Endowment Building Initiative* (AEBI) and is a graduate of *Scottsdale Leadership* Class 31.

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Women Vulnerable in Retirement: Housing Wealth Solutions

Shelley Giordano, MA, Enterprise Integration Mutual of Omaha Mortgage, Founder Academy Home Equity Financial Planning

Editor's note: This article is an adaptation of the live webinar delivered by Shelley Giordano in 2023. Her comments have been edited for clarity and length.

You can read the summary article here as part of the July 2023 Retirement InSight and Trends Newsletter, worth 1.0 CE when read in its entirety (after passing the online quiz.)

You may also choose to take the full length course Women Vulnerable in Retirement: Housing Wealth Solutions for 1.0 hour continuing education (CE) credit.

By Shelley Giordano, MA, Enterprise Integration Mutual of Omaha Mortgage, Founder Academy Home Equity Financial Planning

The press has widely publicized that about 70% of women flat-out fire their advisors once divorced or widowed. Here are some reasons they give for being dissatisfied with their advisors.

- I hardly knew him.
- He mainly spoke to my husband. He treated me like I was an extension of my husband.
- I could not relate to him.
- All he spoke about was rates of return.
- She did not listen to me, and I felt patronized when I asked questions.

How are Women's Retirements Different Than Men's?

Women are more anxious about the future than men and for good reason. When women retire, they are generally more precarious financially than men. Part of the reason they are more anxious is that they know they will live longer. Among centenarians, there are four females for every male; my mother, for example, is age 101. Since women live longer than men, they have to stretch less retirement savings over more extended periods of time. If a couple is still married at age 65, they each have a longer life expectancy.

It is well known that women earn roughly 80 cents on the dollar throughout their careers compared to men, reducing the amount women can save for retirement. It makes sense then that they receive Social Security benefits that are, on average, 80% of what men receive. So, there is this retirement income gender gap.

Women are also more likely to be widowed than widowers. In the U.S. in 2020, there were more than three times as many widows as widowers. In addition, women are the caregivers throughout their lives and are more likely to leave the workforce or take part-time jobs to accommodate caregiving responsibilities. This also contributes to lower Social Security benefits and lower total retirement income. During the pandemic, about 2 million women left their jobs needing to care for children, with schools being shut down. Caregiving.com has found that women earn $324,000 less in wages and benefits during their lifetimes because of caregiving.

Women are nearly four times more likely to care for their spouse or partner in older age. We've all seen situations where mom takes care of dad, and then dad dies, so who will take care of her?

There has also been an increase in grey divorce, which can have an outsized impact on women's overall retirement assets.

It may come down to genes and/or social upbringing, but women feel greater pain than men when they lose money. Women tend to shy away from stocks more than men do. This makes sense because stocks are more volatile and unpredictable than bonds or cash, so women generally shy away from them. Perversely, it is the wrong direction, as stocks have outpaced inflation over long periods versus bonds and cash, so women need a slightly higher exposure to stocks.

Research Promoted by the Academy for Home Equity in Financial Planning at the University of Illinois.

The Academy has collected research that answers the following:

- Is the reverse mortgage safe? No one wants to recommend something that will impact your clients negatively.
- Is the reverse mortgage affordable?
- Can a reverse mortgage actually improve retirement?

The thing to keep in mind here is that older women are homeowners. In 2023, about 80% of people in America who are 65 and older were homeowners. When older men and women are surveyed, around 85% of them want to age in place in their homes.

Home equity represents about two-thirds of the net wealth of the average American. There is this huge illiquid asset that needs to be taken into consideration in planning for a secure retirement, particularly for women.

There are several ways people monetize their home. You can:

- Rent it as an Air BnB. We have heard from the Air BnB folks that older women are their No. 1 population of hosts.
- Do a Golden Girls situation where you rent rooms. Bring in some girlfriends to live with you, sell and move.
- Probably the least popular, at least with the kids, maybe, is moving in with the kids.
- You can monetize your home via a new mortgage requiring a monthly payment. You could do a refinance for a cash-out or a lower payment. You can get a home equity line of credit (HELOC), but the caution here is that older homeowners tend to be denied mortgages.
- You can monetize your home without mandatory payments with a reverse mortgage.

How Has the Modern Reverse Mortgage Evolved?

It is common for financial products to get better over time. Credit cards, annuities, and insurance products have been improved over time by the companies that produce them or by regulators.

That is what has happened with the reverse mortgage. However, the modern reverse mortgage has some persistent myths still attached to it. Dr. Wade Pfau points out the following in one of his books on reverse mortgages.

Misconception 1, and the number one thing you have to help clients understand is that you keep the title to the home. You are not trading in your home and giving title to the bank. You have a mortgage on it, and the lender will wait to be repaid. So, the home's title and control are not forsaken to take on a modern reverse mortgage. It used to be that way 30 years ago but has changed in the last three decades.

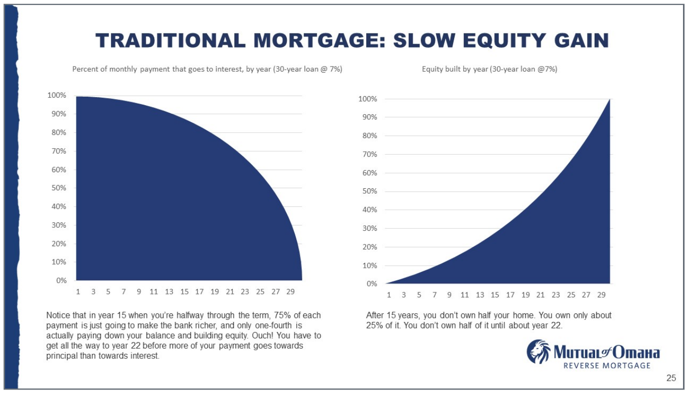
Misconception 2, if your loan balance exceeds the house's value, you would be subjecting your kids to a deficiency judgment. That is not how it works. For the modern reverse mortgage, the house is the sole collateral for the loan. You can never owe more than the house brings at fair market value. And if there is remaining equity, it belongs to you or your estate.

For *Misconception 3*, Dr. Pfau points out that even if you use all the money and it is exhausted, the lender has no right to come in and tell you, "Whoops, it's all over," and kick you out to the curb. Nope, it is *your* house. As long as you keep your taxes, insurance, and maintenance up, and if there are any HOA fees current, just like any mortgage in the United States, it is your house, and you cannot be forced to move.

Misconception 4 is that a monthly mortgage payment is required on principal or interest. No monthly principal or interest payment is due until the last homeowner dies, moves, or sells. One of a couple can go to a nursing home, and the other one has every right to stay in the house. They have not given up the title to the house.

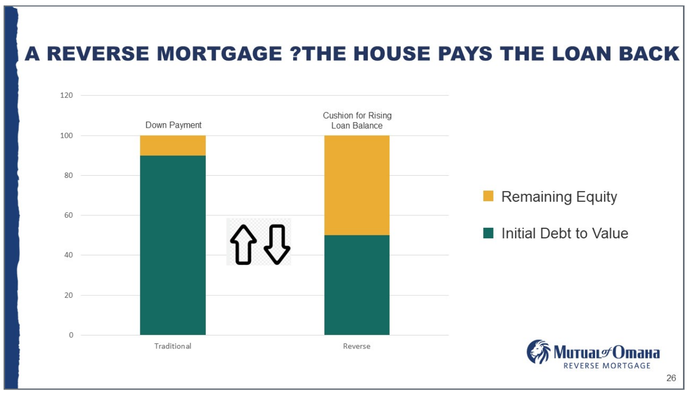
How Do Modern Reverse Mortgages Generally Work?

A traditional mortgage is front-loaded on the interest, so equity builds up over time.



With the reverse mortgage, you make payments if or when it suits you. If you choose to make payments, you can make payments just on interest. For example, Dr. Wade Pfau says do not make payments if it is going to, in any way, jeopardize your portfolio. But you can do that if your portfolio is robust and has good returns, and you want to make some payments on your reverse mortgage. But the expectation is that most people will not be making payments.

With the traditional mortgage, your equity goes up as you make payments. With a reverse mortgage, your equity will decrease if you do not make payments. So, because of that and because the house is the sole collateral for the loan, you will get less for a loan. This is what you would get from a reverse mortgage.



Again, with the traditional mortgage, you must start making payments immediately; with the reverse mortgage, you do not.

What is a Reverse Mortgage?

It is important to understand a reverse mortgage conceptually. It is a mortgage. The most crucial point of the modern reverse mortgage is that it is a nonrecourse loan; only the house pays the loan back. So, the house, just like a regular mortgage, provides and serves as collateral. But in a reverse mortgage, the house is the *sole* collateral. Someone's income or ability to repay is not considered. To do this, actuarial principles apply. Reverse mortgage lenders must know how long people are projected to live to know how much money can be lent.

A reverse mortgage has FHA insurance of about two percent of the home value at the beginning of the mortgage, making the loan nonrecourse. Almost all reverse mortgage borrowers fold the insurance cost into the loan, so they do not have to pay for it out of pocket. Monthly premiums accumulate on the loan balance, totaling half a percentage point per year.

FHA insurance limits the debt for the homeowners and the heirs to the house's fair market value at the loan's end, whatever it may be, and it prevents the incursion of any other assets to satisfy the debt. No one can come to the homeowner or the children and have any expectation that anything else will pay the loan back but the house. In research by Dr. Barry Sacks, he points out that FHA insurance allows part of the house to be spent because if they are in the house for a long time, the loan can exceed its value. The house gets used throughout the entire loan term until that maturation event, generally when the last one of the homeowners dies, moves, or sells.

What are the Pros and Cons of Reverse Mortgages?

The cons are that it will cost you some equity because of the FHA insurance component. Also, interest on the loan balance is a bit higher generally than a regular mortgage (but only a little) and will compound if interest payments are not made. There is no expectation that a borrower must make interest payments, but you can make an interest payment.

What are the pros of the modern reverse mortgage?

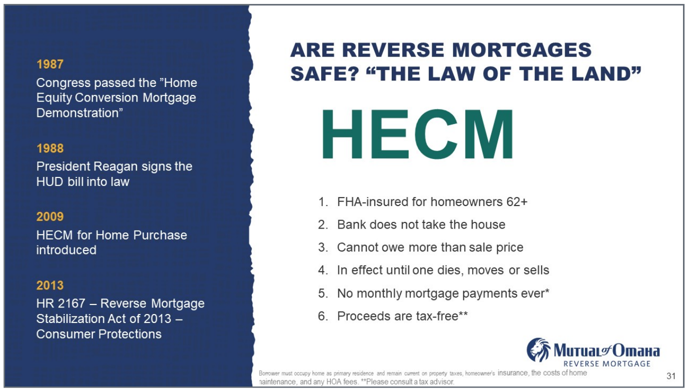
- It is nonrecourse.
- It is flexible; you can pay interest (or not), pay interest and principal in some years when it suits you, or only in December.
- A reverse mortgage line of credit cannot be canceled, frozen, or reduced. So, if home values drop, interest rates go up, or whatever calamity happens in the greater economy, it cannot affect a reverse mortgage.

- Nor foreclosure is possible for missing payments because no payments are required.
- Credit capacity grows with age; as your longevity shortens, you get more access to your equity.

Regarding costs, Dr. Wade Pfau, who has studied reverse mortgages extensively, says reverse mortgages cannot be viewed in isolation. Their cost can be more than offset by gains elsewhere in the financial plan. And this is the key. If you have other assets, thoughtful use of a reverse mortgage can protect those other assets.

What the Heck is a HECM?

The acronym, HECM, stands for Home Equity Conversion Mortgage. Congress passed the "Home Equity Conversion Mortgage Demonstration" in 1987.



Ninety-five percent of all reverse mortgages in our country are HECMs. Additional consumer protections have been added over time to improve the HECM continually.

A HECM is FHA insured for homeowners aged 62+. Bank does not take the house, and the homeowner cannot owe more than the current value when the last homeowner dies, moves, or sells. There is no monthly mortgage payment ever, and the proceeds are tax-free.

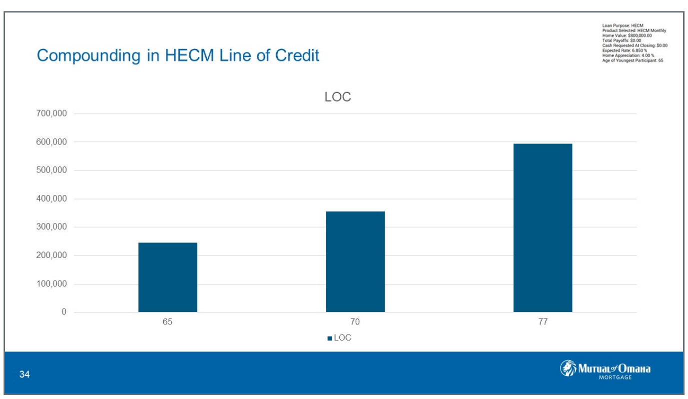
The IRS considers proceeds from a mortgage as debt, not income.

Every client must attend an FHA counseling session and be given the book, "Use Your Home to Stay at Home." The FHA-approved counselor has nothing to do with the transaction and is there to ensure they understand that it is a mortgage, interest is involved, their home is theirs, and they are not signing it over to the bank. The FHA counselor also ensures they understand they are responsible for their tax, insurance, maintenance, and HOA.

A HECM can be a revolving credit instrument. So, let us look at a regular credit card. Let us say your credit card limit is $10,000, and you spend $9,000, so your credit available goes down to $1,000. In month one, you pay it right back, and your credit available goes back up to $10,000. Next month you spend $8,000, so your credit available goes down to $2,000. Pay it right back, and your credit available is back to $10,000.

A HECM line of credit works the same way. You can make payments against it, but you are always going to have growth at the same rate that the loan balance is growing. For example, for a $100,000 beginning line of credit at 4% interest, the line of credit will be $104,000 at the end of the first year. At the end of the second year, the HECM line of credit will be $108,000.

The credit limit in a HECM line of credit has to grow. It grows as part of the internal structure of how the HECM works, and it cannot be canceled, frozen, or reduced even if the home value drops. Here is an example of a HECM line of credit growth at age 65 with an expected rate of 6.85%.



A HECM line of credit is going to compound as well.

The growth in the line of credit really interested the original retirement experts. The fact that this line of credit was going to keep pace with what was going on in the market and that it could not be canceled, frozen, or reduced if the overall real estate market or other financial markets collapsed. The growth in the line of credit is backed by the US government's full faith in and credit.

Would a regular home equity line of credit (HELOC) be less expensive overall? Dr. Wade Pfau points out that if you set up a HELOC, you will not get an increase in your credit capacity as you would with a HECM. With a HELOC, you do not get to borrow from it after ten years. Dr. Pfau also says that opening a HECM line of credit earlier allows for greater availability of future credit relative to waiting until retirement.

Proceeds from a reverse mortgage can be distributed:

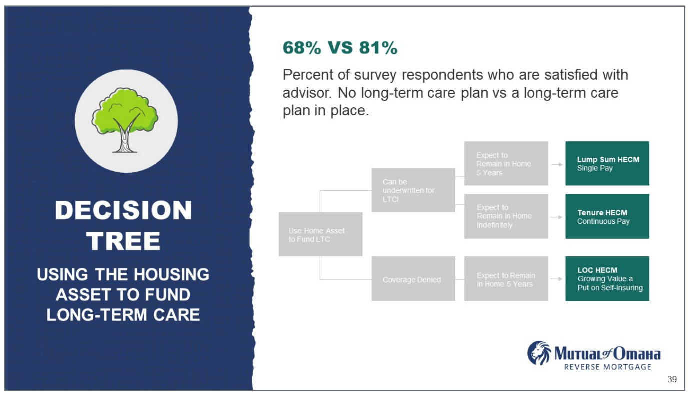
- as a lump sum.
- as a monthly tenure payment that will last for as long as you are in the house.
- as a term payment. For example, say you need $12,000 a month so that your husband can have care at home. They can figure out how long paying $12,000 a month would last.
- as a line of credit that the lender cannot cancel, reduce, or freeze, or
- as a combination of these.

How Can You Use a Reverse Mortgage to Self-fund Long-Term Care?

The availability of long-term care policies has been shrinking and becoming more expensive. People are not buying them.

People who work with an advisor might not have long-term care insurance, but they can create a plan for long-term care. Clients whose advisors talk to them about long-term care needs are more satisfied than those whose advisors put their heads in the sand because it is just such a complex problem to solve if they are not going to get long-term care insurance.

Here is a decision tree for how to use the housing asset to fund longer-term care:



Say you want to use the home asset to fund long-term care. First, you must check to see if the client can be underwritten for long-term care insurance because of the cost of setting up a reverse mortgage. It is generally assumed that you should expect to stay in the home for five years to justify the cost of setting it up. You could then use the lump sum HECM for a single-pay long-term care policy.

If you expect to stay in the home indefinitely, you could use the tenure continuous pay option to pay long-term care premiums. If coverage is denied and you expect to remain in the home for five years, you can set up that line of credit so that it has growing value, which is like a “put” on self-insurance. So, if you do not spend it, the money is just equity that was not spent. But that growing line of credit is there for you should, in the future, you need long-term care in the home.

Again, the HECM line of credit compounds monthly at a contractually established rate. The lender cannot alter it. It cannot be canceled, frozen, or reduced. It grows even if the housing value does not. The line of credit will grow regardless of the rate of home appreciation. HELOC growth is zero.

In addition, using the reverse mortgage line of credit for long-term care expenses instead of taking the funds from your retirement portfolio dramatically increases the amount and longevity of the portfolio over time.

Case Studies

Let’s say Stephanie is 72 years old. She has a yearly principal and interest payment of $13,608. So, by taking out a HECM, she replaces her current mortgage with a reverse mortgage. She will get enough to pay off her current traditional mortgage from her reverse mortgage and keep $80,000 of equity in her growing HECM line of credit. Using Money Guide Pro (a popular planning software used by financial planners), If she had kept her traditional mortgage, she would have had a low probability of retirement success, with $1,100 a month eating up her retirement income or savings. Even if she converted her HECM line of credit into a tenure payment of $463 a month for life, just an extra $463 a month on top of the improved cash flow of not paying $1,100 a month on her traditional mortgage, increases her probability of retirement success to 99%.

Let’s say Carlos and Maria are aged 66. They have an expected monthly retirement income of $6,000. They have retirement savings of $750,000, and their inflation prediction is three percent. And their return during retirement is estimated at six percent. Their home of $500,000 is almost paid off.

After the divorce, they split the retirement funds. Carlos moves out of the house, and he gets something else. Maria gets the $500,000 house, and her cash flow needs are reduced somewhat, but she still has a house.

Say Maria does a reverse mortgage and draws $1,200 monthly, a modest amount, or $14,400 yearly. Her portfolio could be depleted quickly if she did not get a reverse mortgage. But just having that extra $1,200 a month reduces the need to draw on the portfolio and improves her portfolio resilience significantly.

What is a HECM for Purchase Reverse Mortgage?

Now we will talk about buying a house using a reverse mortgage. This is not the most intuitive thing in the world. People don't think about buying a house using a reverse mortgage; they think I will put a reverse mortgage on my old house and not move from it.

The legacy home is the departure home. It is not used to calculate purchase money funds. It can be the source of the down payment for a new house, but it is not part of the reverse mortgage. The reverse mortgage is placed on the *new* home, the new principal residence. The new house is used to determine the HECM for purchase funds available.

For example, Ron and Judy are in their 70s. They have been living in the same house in New York together for years, but not as a married couple. Eventually, they sold their home in New York and received net cash of $330,000. They divide their personal property into two moving pods and move to South Carolina. Ron moves into a short-term rental, and Judy lives with her sister while house hunting.

Judy uses $127,740 of her share of the $330,000 they netted from their home in New York as a down payment on a HECM purchase transaction to buy a $305,000 home. She can retain $42,260 from her half of their home's sale. The remaining difference between the $127,740 down payment and the $305,000 prior home proceeds is financed with a reverse mortgage. She can move in and has no monthly principal and interest payments. Judy uses $20,000 of her remaining home sale to furnish her new retirement home.

Ron did a similar thing. He bought a condo in Myrtle Beach and a membership to a golf course. So, it worked very well for both of them.

In a divorce, a HECM for purchase can make the difference. For example, let us say the wife takes out a reverse mortgage and gives her husband half of the reverse mortgage proceeds. He leverages the money to buy a new house for himself. Or they can sell the family home, and each takes their share, as Ron and Judy did. They can leverage that down payment from the sale of the house and bump up the value of the house that they buy individually and still have no principal and interest payment. It is an equitable solution to housing, which is sometimes not that easy to accomplish in divorce situations.

It is important to recognize that a HECM purchase reverse mortgage is a one-time down payment in cash, usually about 60%. The remaining money comes from a reverse mortgage. The lien on the house is just a reverse mortgage, and no monthly mortgage payment on the principal or the interest is ever due.

How to Use a HECM to Maximize Social Security

Say Elizabeth is 62. She has $84,000 in retirement cash flow needs. She has a pension of $5,000 a month. She has an IRA of $500,000. Her combined tax bracket is 33%.

What happens if she defers her Social Security until age 70? She can draw $2,000 monthly from the reverse mortgage line of credit to help the spending gap until age 68 and withdraw from the portfolio for the remainder. This allows her to protect her portfolio by delaying drawing from her IRA as long as possible to meet her spending needs and save on taxes.

How to Use a HECM to Protect the Portfolio

Research by Dr. Barry Sacks and Dr. Stephen Sacks, as well as Dr. John Salter and Harold Evensky, CFP®, demonstrate that taking draws from a HECM instead of from the portfolio in down markets is a way to mitigate sequence of returns risk. The idea here is that if you experience a year of negative return, the following year, do not draw from your portfolio; draw instead from your reverse mortgage line of credit.

TAKE DRAWS FROM HECM IN DOWN MARKETS

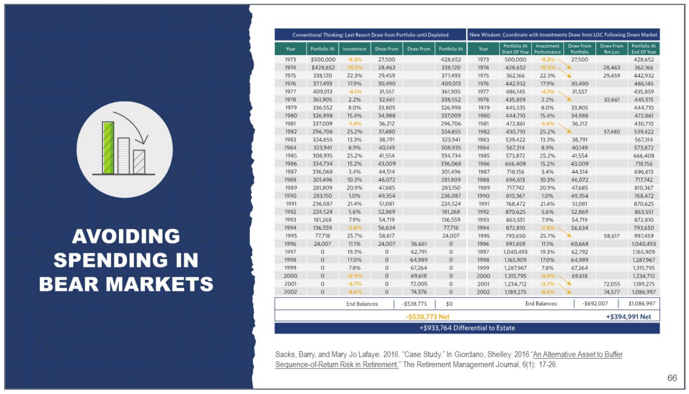
New Wisdom: Coordinate with Investments Draw from LOC Following Down Market					
Year	Portfolio At Start Of Year	Investment Performance	Draw From Portfolio	Draw From Rm Loc	Portfolio At End Of Year
1973	500,000	-9.3%	27,500		428,652
1974	428,652	-15.5%		28,463	362,166
1975	362,166	22.3%		29,459	442,932
1976	442,932	17.9%	30,490		486,145
1977	486,145	-4.1%	31,557		435,859
1978	435,859	2.2%		32,661	445,515
1979	445,535	8.0%	33,805		444,710
1980	444,710	15.4%	34,988		472,861
1981	472,861	-1.4%	36,212		430,710

Sacks, Barry, and Mary Jo Lafaye. 2016. "Case Study." In Giordano, Shelley. 2016 "An Alternative Asset to Buffer Sequence-of-Return Risk in Retirement." The Retirement Management Journal, 6(1): 17-26.

65

Draws here from the portfolio increase over time because of inflation. Say there is another bad year; do not take from the portfolio; draw from the reverse mortgage line of credit. Another bad year, draw from the reverse mortgage line of credit instead of the portfolio. Above, you see that four of the first nine years of a $500,000 retirement portfolio were in negative territory, which is a bad sequence of returns.

Some people plan to use a reverse mortgage as a last resort. In this example, on the left is a $500,000 portfolio where draws are taken as needed without incorporating the use of home equity.



Conventional Thinking: Last Resort Draw from Portfolio until Depleted					
Year	Portfolio At	Investment	Draw From	Draw From	Portfolio At
1973	$500,000	-9.3%	27,500		428,652
1974	$428,652	-15.5%	28,463		338,120
1975	338,120	22.3%	29,459		377,493
1976	377,493	17.9%	30,490		409,013
1977	409,013	-4.1%	31,557		361,905
1978	361,905	2.2%	32,661		338,552
1979	336,552	8.0%	33,805		326,998
1980	326,998	15.4%	34,988		337,009
1981	337,009	-1.4%	36,212		296,706
1982	296,706	25.2%	37,480		324,655
1983	324,655	13.3%	38,791		323,941
1984	323,941	8.9%	40,149		308,935
1985	308,935	25.2%	41,554		334,734
1986	334,734	15.2%	43,009		336,068
1987	336,068	3.4%	44,514		301,496
1988	301,496	10.3%	46,072		281,809
1989	281,809	20.9%	47,685		283,150
1990	283,150	1.0%	49,354		236,087
1991	236,087	21.4%	51,081		224,524
1992	224,524	5.6%	52,869		181,268
1993	181,268	7.9%	54,719		136,559
1994	136,559	-2.8%	56,634		77,718
1995	77,718	25.7%	58,617		24,007
1996	24,007	11.1%	24,007	36,661	0
1997	0	19.3%	0	62,791	0
1998	0	17.0%	0	64,989	0
1999	0	7.8%	0	67,264	0
2000	0	-0-9%	0	69,618	0
2001	0	-3.7%	0	72,005	0
2002	0	-8.6%	0	74,576	0
		End Balances:		-$538,773	$0
				-$538,773 Net	

New Wisdom: Coordinate with Investments Draw from LOC Following Down Market					
Year	Portfolio At Start Of Year	Investment Performance	Draw From Portfolio	Draw From Rm Loc	Portfolio At End Of Year
1973	500,000	-9.3%	27,500		428,652
1974	428,652	-15.5%		28,463	362,166
1975	362,166	22.3%		29,459	442,932
1976	442,932	17.9%	30,490		486,145
1977	486,145	-4.1%	31,557		435,859
1978	435,859	2.2%		32,661	445,515
1979	445,535	8.0%	33,805		444,710
1980	444,710	15.4%	34,988		472,861
1981	472,861	-1.4%	36,212		430,710
1982	430,710	25.2%		37,480	539,422
1983	539,422	13.3%	38,791		567,314
1984	567,314	8.9%	40,149		573,872
1985	573,872	25.2%	41,554		666,408
1986	666,408	15.2%	43,009		718,156
1987	718,156	3.4%	44,514		696,613
1988	696,613	10.3%	46,072		717,742
1989	717,742	20.9%	47,685		810,367
1990	810,367	1.0%	49,354		768,472
1991	768,472	21.4%	51,081		870,625
1992	870,625	5.6%	52,869		863,551
1993	863,551	7.9%	54,719		872,810
1994	872,810	-2.8%	56,634		793,650
1995	793,650	25.7%		58,617	997,459
1996	997,459	11.1%	60,668		1,040,493
1997	1,040,493	19.3%	62,792		1,165,909
1998	1,165,909	17.0%	64,989		1,287,967
1999	1,287,967	7.8%	67,264		1,315,795
2000	1,315,795	-0.9%	69,618		1,234,712
2001	1,234,712	-3.7%		72,055	1,189,275
2002	1,189,275	-8.6%		74,577	1,086,997
		End Balances:		-$692,007	$1,086,997
					+$394,991 Net

+$933,764 Differential to Estate

Sacks, Barry, and Mary Jo Lafaye. 2016. "Case Study." In Giordano, Shelley. 2016 "An Alternative Asset to Buffer Sequence-of-Return Risk in Retirement." The Retirement Management Journal, 6(1): 17-26.

66

They run out of money in 23 years and must take large draws from their reverse mortgage, resulting in $0 in the portfolio and $583,000 in debt on the reverse mortgage.

On the right side is the coordinated strategy, where you coordinate your portfolio with the reverse mortgage. Those years you drew from the reverse mortgage line of credit have an unbelievably protective effect on the $500,000 portfolio. You actually might have $1 million left in a portfolio. Now, there is a significant ending loan balance. However, the interest on the reverse mortgage could have been mitigated if you wanted to or not.

But the point is that the differential to the estate is $933,764 just by using another asset to protect the portfolio. Without the use of the reverse mortgage, there is only debt on the house. With the use of the reverse mortgage, there is debt on the house, but much money is in the portfolio to offset it.

Who Doesn't Need a Shock Absorber?

I love considering home equity conversion mortgages as a giant shock absorber.

And what are some of the shocks that come with retirement?

- Hearing aids, $6,000, not covered.
- Dental shocks. I cannot tell you how many clients leave the closing at a reverse mortgage and walk across the street to the dentist. We had a financial advisor who had $50,000 in dental work done as soon as she set up a reverse mortgage. Fifty thousand dollars would take a big chunk out of a portfolio.
- Car repairs can be just devastating to people later in life.
- Housing value shock. With a HECM, it does not matter what the housing value becomes. The appraisal is done at the beginning, which is what you are locking in.
- Health shocks. Anything that can happen to you, your spouse.
- Liquidity shock, not having access to money.
- Inflation shock. We have seen a bit of that, have we not?
- Divorce shock.
- And then, of course, portfolio shock. Anything can happen.

Key Takeaways

- The duty of care and business promotion improves when advisors are sensitive to the unique needs of women clients.
- The modern HECM reverse mortgage is safe for clients.
- The nonrecourse benefit cannot be had anywhere else.
- The reverse mortgage cannot be canceled, frozen, or reduced.
- The reverse mortgage costs are born by the mortgage itself. They are folded into the loan. Again, the differentiating cost between a net and a traditional mortgage is mostly the FHA insurance.
- The compounding interest can be mitigated by voluntary payments when the portfolio is robust. And as Dr. Pfau says, skip the payments if the portfolio is stressed.
- The mortgage cost cannot be assessed without evaluating the effect on other assets.

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*About **Shelley Giordano, MA, Enterprise Integration Mutual of Omaha Mortgage, Founder Academy Home Equity Financial Planning***

Women Vulnerable in Retirement: Housing Wealth Solutions – Shelley Giordano

Shelley's background in reverse mortgage lending is diverse and includes origination, sales management, and industry leadership. She read a very early article article written by Barry Sacks, PhD, JD , in 2005, and since then have advocated for the protective power of housing wealth in the retirement distribution phase.

Shelley supports the conservative, proactive use of housing wealth. She also promotes responsible lending principles.

As head of Mutual of Omaha Mortgage's Enterprise Integration and Founder of the Academy Home Equity Financial Planning University of Illinois, she strives for collaboration among thought leaders in academia, regulatory agencies and financial services firms that are investigating the proper role of housing wealth in retirement.

Shelley strives for the right of the American retiree to have access to accurate information on how reverse mortgage lending works, and how much it costs. Her years in the industry have proven that product innovation is not necessarily in the best long-term interests of the consumer or the taxpayer. Because the US Government is the ultimate backstop for the HECM, she does not support product innovation at the expense of the taxpayer. Most importantly, Shelley is devoted to helping retirees, especially Baby Boomers, understand that housing wealth may contribute to a financially secure retirement.

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